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TESTIMONY OF SHARON G. SCOTT JUL 23 1997

FOR

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 96-376-S

IN RE: PALMETTO UTILITIES, INC.

Q. MS. SCOTT, WOULD YOU PLEASE STATE YOUR NAME,
BUSINESS ADDRESS AND OCCUPATION?

A. My name is Sharon G. Scott. My business address is
111 Doctors Circle, Columbia, South Carolina. I am
an Accounting/Fiscal Analyst for the Public Service
Commission of South Carolina.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND
AND YOUR BUSINESS EXPERIENCE?

A. I received a B.S. Degree in Business Administration,
with a major in Accounting from the University of
South Carolina in 1983. I was employed by this
Commission in July 1983, and have participated in
cases involving gas, electric, telephone, and water
and wastewater utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING
PALMETTO UTILITIES, INC?

A. The purpose of my testimony is to set forth, in
summary form, the Staff's findings and

1 recommendations resulting from our review of the
2 Company's application in this docket. These findings
3 and recommendations are set forth in detail in the
4 audit report of the Commission Staff, with attached
5 exhibits.

6 Q. I SHOW YOU THIS DOCUMENT. WOULD YOU IDENTIFY IT
7 PLEASE?

8 A. This is the "Public Service Commission of South
9 Carolina, Commission Staff Report, Palmetto
10 Utilities, Inc., Docket No. 96-376-S, Application for
11 Rate Increase."

12 Q. DID YOU PREPARE, OR CAUSE TO BE PREPARED UNDER
13 YOUR DIRECTION AND SUPERVISION, A PORTION OF THIS
14 DOCUMENT?

15 A. Yes, with the exception of that portion which is
16 tabbed Utilities Department, I prepared the report
17 with assistance from the Commission's Accounting
18 Department Staff.

19 Q. (MARK FOR IDENTIFICATION). NOW WOULD YOU EXPLAIN THE
20 CONTENTS OF THIS REPORT?

21 A. As outlined in the Index of Staff's report, the first
22 3 pages contain the report analysis. The remaining
23 pages consist of exhibits which were prepared to show
24 various aspects of the Company's operations and
25 financial position. The major portion of my

1 testimony will refer to Accounting Exhibit A, as
2 shown on page 4, of the Staff's report. The exhibit
3 is entitled Operating Experience and Operating
4 Margin. Staff prepared this exhibit in compliance
5 with the Commission's standard procedures for Water
6 and Wastewater utility rate increases.

7 **Q. WOULD YOU EXPLAIN THE FORMAT OF EXHIBIT A?**

8 A. Column (1) shows the Company's per book balances as
9 of April 30, 1996. Staff verified the per book
10 balances to the Company's books and records.

11 Column (2) shows the Staff's accounting and pro forma
12 adjustments designed to normalize the Company's per
13 book operations.

14 Column (3) shows Staff's computation of the Company's
15 normalized test year prior to giving effect for the
16 proposed increase.

17 Column (4) shows the Staff's adjustments for
18 the proposed increase as furnished by the Utilities
19 Department and the adjustments associated with the
20 additional revenue.

21 Column (5) shows the Staff's computation of the
22 normalized test year after giving effect for the
23 accounting and pro forma adjustments and the effect
24 of the proposed increase and its associated
25 adjustments.

1 Q. WOULD YOU PLEASE ELABORATE ON THE CALCULATIONS IN
2 EXHIBIT A?

3 A. Shown in column (1) is the per book operating
4 experience of the Company's sewer operations. Staff
5 computed Total Income (Loss) for Return of (\$284,179)
6 based on operating revenues of \$862,973 less
7 operating expenses of \$1,147,152. Total Income
8 (Loss) for Return of (\$284,179) less interest expense
9 of \$531,154 and Operating Revenues of \$862,973
10 produced an Operating Margin of (94.48%). In column
11 (2), Staff's accounting and pro forma adjustments
12 were designed to normalize the Company's test year
13 operations. A description of each adjustment is
14 contained in Exhibit A-1. In column (3), the
15 accounting and pro forma adjustments decreased Total
16 Income (Loss) for Return from (\$284,179) to income of
17 \$108,382 and increased the Operating Margin from
18 (94.48%) to (3.64%). Column (4) shows the effect of
19 the proposed increase as computed by the Utilities
20 Department. These adjustments are detailed in
21 Exhibit A-1 of the report. Column (5) shows per book
22 operations as adjusted to normalize the test year and
23 after the proposed increase is added to as adjusted
24 revenues. As a result, Total Income for Return of
25 \$210,324 was computed by the Staff. Such income was

1 based on operating revenues of \$994,095 less
2 operating expenses of \$793,939 plus Customer Growth
3 of \$10,168. An Operating Margin of 7.03% was
4 computed using the Total Income for Return of
5 \$210,324, less interest expense of \$140,464 and
6 operating revenues of \$994,095.

7 Q. WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT
8 A-1?

9 A. Yes, the adjustments are as follows:

10 To adjust sewer operating revenues for year-end
11 customers at present rates. (Utilities)

12 Per Staff - \$29,178, Per Company -0-.

13
14 To remove nonrecurring revenue for disposal of
15 rainwater run-off for the Leachate Company. Per
16 Commission order, the Company no longer provides this
17 service. (Utilities) Per Staff - (\$ 10,595), Per
18 Company - (\$ 10,595).

19
20 To remove from operating expenses, costs associated
21 with installing taps. (Acct.) Per Staff - (\$85,250),
22 Per Company -0-.

23
24 To remove nonallowable expenses. These items are
25 considered nonallowable for ratemaking purposes.

1 (Acct.) Per Staff - (\$ 2,895), Per Company -0-.

2
3 To correct per book rate case expenses and to
4 amortize the present rate case expenses over a
5 three-year period. The Company amortized an estimate
6 of rate case expenses. (Acct.) Per Staff - \$6,532,
7 Per Company - \$11,167.

8
9 To correct per book benefits for administrative
10 employees. A portion of the expense was left out of
11 the per book amount. (Acct.) Per Staff - \$2,475, Per
12 Company - \$2,475.

13
14 To adjust the salary for Stan Jones to a level
15 comparable to other sewer companies of similar size.
16 Staff reduced the salary from \$112,054 to \$104,600.
17 (Acct.) Per Staff - (\$ 7,454), Per Company -0-.

18
19 To remove bonus for Stan Jones. The Company does not
20 routinely give bonuses to Mr. Jones. (Acct.) Per
21 Staff - (\$ 5,000), Per Company -0-.

22
23 To correct per book depreciation expense. The
24 Company inadvertently used the incorrect number for
25 the per book amount. (Acct.) Per Staff - (\$ 230,532),

1 Per Company - (\$ 230,532).
2
3 To annualize depreciation expense using rates
4 recommended by the Utilities Department. Plant was
5 reduced by Contributions in Aid of Construction
6 before depreciation was computed. (Utilities & Acct.)
7 Per Staff - (\$ 81,383), Per Company -0-.
8
9 To include depreciation expense for plant completed
10 outside the test year. (Utilities & Acct.) Per Staff
11 - \$17,136, Per Company - \$14,850.
12
13 To include current depreciation expense on cumulative
14 tap fees. Staff depreciated the taps using the
15 cumulative depreciation rate. (Acct.) Per Staff -
16 \$17,764, Per Company -0-.
17
18 To adjust payroll taxes for the reduction in Stan
19 Jones' salary. (Acct.) Per Staff - (\$ 131), Per
20 Company -0-.
21
22 To adjust for customer growth. Details are shown on
23 Exhibit A-4. (Acct.) Per Staff - \$5,240, Per Company
24 -0-.
25

1 To account for the effect of the proposed increase.
2 (Utilities & Acct.) Per Staff - Revenues - \$112,539,
3 Taxes Other Than Income - \$1,295, Income Taxes -
4 \$14,230, Customer Growth - \$4,928. Per Company -
5 Revenues - \$112,539, Taxes Other Than Income -0-,
6 Income Taxes -0-, Customer Growth -0-.

7 **Q. WOULD YOU PLEASE ELABORATE ON THE REMAINING EXHIBITS?**

8 A. Exhibit A-2 shows the Depreciation Expense
9 Adjustment. Exhibit A-3 shows the Computation of
10 Income Taxes. Exhibit A-4 shows the Computation of
11 Customer Growth. Exhibit A-5 shows the Income
12 Statement for the Test Year Ending April 30, 1996.
13 Exhibit A-6 shows the Balance Sheet at April 30,
14 1996.

15 **Q. DOES THE COMPANY KEEP ITS RECORDS IN ACCORDANCE WITH**
16 **THE NARUC GUIDELINES?**

17 A. No. Staff recommends that the Company use the NARUC
18 chart of accounts for recordkeeping.

19 **Q. WHAT ARE THE RATES BEING REQUESTED IN THIS CASE?**

20 A. As calculated by Staff, an Operating Margin of 7.03%.

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

22 A. Yes, it does.
23
24
25